



Rosalind M. Hewsenian
Managing Director

September 1, 2005

Mr. Mark Anson
Chief Investment Officer
California Public Employees' Retirement System
400 P Street, Suite 3492
Sacramento, CA 95814

Re: International Equity Contract Renewal Recommendation¹

Dear Mark,

You had requested Wilshire's opinion with respect to Staff's recommendation pertaining to the annual review and renewal of the contracts of the international equity managers. Wilshire concurs with Staff's recommendations, though we are closely monitoring two managers.

Discussion

During the 2004/2005 fiscal year, the CalPERS International Equity manager program outperformed its benchmark, which is a turnaround from the 2003/2004 fiscal year. Staff has taken a number of steps to improve the performance of the program, with the most significant being the resignations of underperforming managers. The resignations reduced the structure bias toward large-capitalization growth managers that existed in the International Equity manager program and helped performance as value continued to outperform growth internationally over the last fiscal year. In addition, Staff has created spring-fed pools of international active managers and enhanced index managers. This allows the Staff greater flexibility and timeliness in replacing underperforming managers. We support the annual contract renewal recommendation as the current stable of managers mostly has produced positive active return. However, we are closely monitoring two managers.

The two managers we are closely monitoring are Baillie Gifford and Robeco USA. No action should be taken at this point, though we will be closely monitoring these managers in the near future. Discussions of the two managers start on the next page.

¹ Wilshire's Code of Conduct requires us to disclose which of the above firms are clients of Wilshire's Analytics Services Division and as such pay Wilshire a fee for the licensing of analytical software used in investment management. Wilshire's consulting division has no business relationship with them. This disclosure has been delivered under separate cover.

Baillie Gifford

Baillie Gifford manages an active international equity portfolio for CalPERS that exhibits a growth orientation. The manager seeks to add value by constructing a portfolio of roughly 100 to 150 names utilizing a bottom-up stock selection process. The stock selection is performed by regional teams and then the overall regional allocation is determined by an Investment Policy Committee. Due to the manager's growth orientation, performance suffered during the 2003/2004 fiscal year. In addition, country/regional selection contributed negatively to performance. Performance has improved during the 2004/2005 fiscal year as the manager made improvements on overall portfolio construction during the regional allocation process. Wilshire will continue to work with Staff to monitor the manager to ensure continual improvement in performance.

Robeco USA

Robeco USA manages an active international equity portfolio that has a slight growth orientation for CalPERS. The manager utilizes a quantitative investment process that combines top-down regional allocation with bottom-up stock selection to add value. Fundamental analysis is used to identify a company's competitive position within its industry, while a quantitative multi-factor model is used to rank stocks. In addition to facing a style-headwind, Robeco's stock selection decisions went unrewarded during the 2002/2004 fiscal years. Stock selection has improved during the 2004/2005 fiscal year, especially in the Pacific-Basin markets. Though performance has improved, Wilshire will work with Staff to closely monitor the situation.

Conclusion

While Wilshire is closely watching the above mentioned managers, Wilshire concurs with Staff's recommendation to renew the contracts for all of the international equity managers, as CalPERS still has the right to terminate on 30 days notice. Wilshire will continue to monitor these managers over the coming months.

Sincerely,

Handwritten signature of R. M. Hensenian in cursive script.